

*„International Agricultural Trade
between Rules, Policy and Science“*

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Bernard Lehmann,

Hypothesis and questions

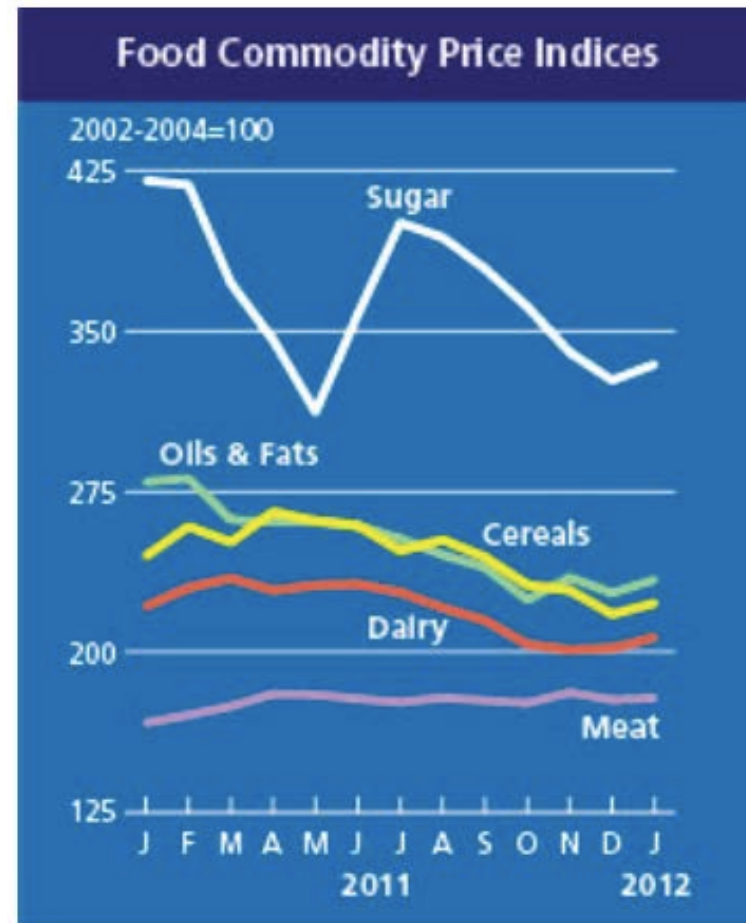
- Science (economics) based policy would differ from the real policy designs
- Especially in trade policy
- The food crisis brought some doubts in the discussion
- What about the “future of food”, climate change?
- Do we eventually have to revisit our positions?

Outline

- Lessons learnt from the food crisis (based on an FAO experience focused on DC)
- The ecological dimension of agriculture and food provision
- Role of Policy in a agricultural, food and environmental context
- Personal view on future trade policy

Food price volatility

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Key Messages the State of Food Insecurity in the World (FAO)

Small import-dependent countries, especially in Africa, were deeply affected by the food and economic crises.

Some large countries were able to insulate themselves from the crisis through restrictive trade policies and functioning safety nets, but trade insulation increased prices and volatility on international markets.

- Open markets (export bans incl.) as suggested by economists help to decrease volatility

Key Messages the State of Food Insecurity in the World (FAO, 2011)

High and volatile food prices are likely to continue.

Demand from consumers in rapidly growing economies will increase, population continues to grow, and any further growth in biofuels will place additional demands on the food system. On the supply side, there are challenges due to increasingly scarce natural resources in some regions, as well as declining rates of yield growth for some commodities. Food price volatility may increase due to stronger linkages between agricultural and energy markets, as well as an increased frequency of weather shocks.

Framework to reduce the substitution of land allocation between the food market and the energy market would help

Key Messages the State of Food Insecurity in the World (FAO, 2011)

Price volatility makes both smallholder farmers and poor consumers increasingly vulnerable to poverty. Because food represents a large share of farmer income and the budget of poor consumers, large price changes have large effects on real incomes. Thus, even short episodes of high prices for consumers or low prices for farmers can cause productive assets – land and livestock, for example – to be sold at low prices, leading to potential poverty traps. In addition, smallholder farmers are less likely to invest in measures to raise productivity when price changes are unpredictable.

A good international buffer (via well interlinked national markets) help to avoid the poverty trap for consumer and producer (my experience in Africa)

Key Messages the State of Food Insecurity in the World (FAO, 2011)

Large short-term price changes can have long-term impacts on development. Changes in income due to price swings can reduce children's consumption of key nutrients during the first 1 000 days of life from conception, leading to a permanent reduction of their future earning capacity, increasing the likelihood of future poverty and thus slowing the economic development process.

Purchase power for households (rural and urban) is essential. Economic development (local) and affordable food prices are essential (own experience in Sri Lanka and Mongolia)

Key Messages the State of Food Insecurity in the World (FAO, 2011)

High food prices worsen food insecurity in the short term. The benefits go primarily to farmers with access to sufficient land and other resources, while the poorest of the poor buy more food than they produce. In addition to harming the urban poor, high food prices also hurt many of the rural poor, who are typically net food buyers. The diversity of impacts within countries also points to a need for improved data and policy analysis.

Same conclusion than before, but...

Key Messages the State of Food Insecurity in the World (FAO, 2011)

High food prices present incentives for increased long-term investment in the agriculture sector, which can contribute to improved food security in the longer term.

Domestic food prices increased substantially in most countries during the 2006–08 world food crisis at both retail and farmgate levels. Despite higher fertilizer prices, this led to a strong supply response in many countries. It is essential to build upon this short-term supply response with increased investment in agriculture, including initiatives that target smallholder farmers and help them to access markets, such as Purchase for Progress (P4P).

Higher prices can boost long run supply (investments) and contribute to long run price stabilization

Key Messages the State of Food Insecurity in the World (FAO, 2011)

Safety nets are crucial for alleviating food insecurity in the short term, as well as for providing a foundation for long-term development. In order to be effective at reducing

the negative consequences of price volatility, targeted safety-net mechanisms must be designed in advance and in consultation with the most vulnerable people.

Safety-net mechanisms? What type of measure? (increase of the stock-use ratio)

Key Messages the State of Food Insecurity in the World (FAO, 2011)

A food-security strategy that relies on a combination of increased productivity in agriculture, greater policy predictability and general openness to trade will be more effective than other strategies. Restrictive trade policies can

protect domestic prices from world market volatility, but these policies can also result in increased domestic price volatility as a result of domestic supply shocks, especially if government policies are unpredictable and erratic. Government policies that are more predictable and that promote participation by the private sector in trade will generally decrease price volatility.

Trade, the better solution

Key Messages the State of Food Insecurity in the World (FAO, 2011)

Investment in agriculture remains critical to sustainable long-term food security. Such investment will improve the competitiveness of domestic production, increase farmers' profits and make food more affordable for the poor. For example, cost-effective irrigation and improved practices and seeds developed through agricultural research can reduce the production risks facing farmers, especially smallholders, and reduce price volatility. Private investment will form the bulk of the needed investment, but public investment has a catalytic role to play in supplying public goods that the private sector will not provide. These investments should consider the rights of existing users of land and related natural resources, benefit local communities, promote food security and not cause undue harm to the environment.

Trade an agricultural policy in a adequate setup

Lesson learnt at a glance

- Volatility is the main problem
- Purchase power is affected when prices rise
- Investments in agriculture (south) are a major limiting factor in DC
- Open markets as such are not a cause of the problems, but a part of the solution

Open markets – trade distortions - environment

- Independently of the market policy of a country there is a severe ecological problem at the global scale
- Questions:
 - What type of problems?
 - How can they be solved?
 - Potential consequences for trade related discussions

Global – local ecological problems

- Soil degradation (low to severe)
- Pesticides accumulation and diffusion
- Biodiversity
- Use of non renewable water (blue water)
- Energy use
- Climate change (mitigation and adaptation)

Paths for solutions

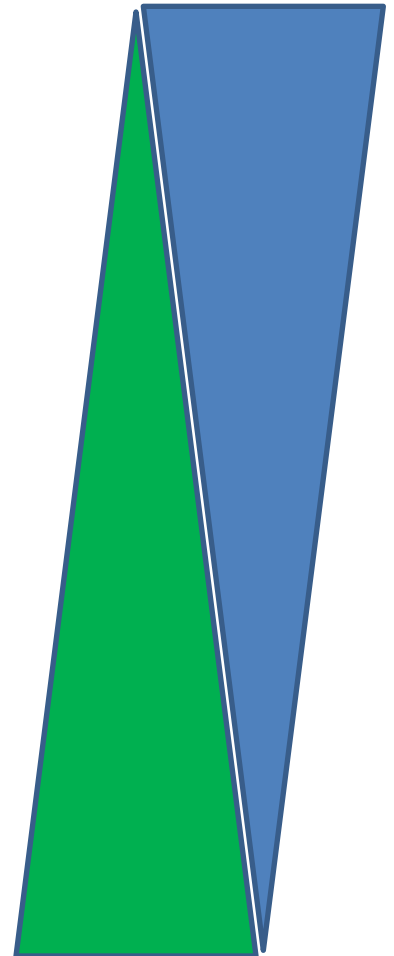
- Environmental policy framework
- Competition in trade is a (political) reason for the too slow progress in the field of internalization (restrictions and taxes)
- Alternate solution: incentives
 - Possible for governments in industrialized countries
 - Difficult for DC (ecosystem payments)
- Trade, distortions, reference point (framing aspect)

Trade distortion, what is the reference point?

- Ideal: Free trade with a better internalization of “costs” of ecological impact and scarcity of natural resources (hotelling rule)
- Ecologically sounded competition (animal welfare included)
- Green box measures for market failure (global issue) ...
- ... and ecological asymmetry in trade as long as they exist

Personal view on future trade policy

- Export subsidies suppressed
- Access to markets
- Combined with strong environmental condition (resource protection, environmental protection, animal welfare and agri-biodiversity, biodiversity)
- Food security (minimal level of local production, strategic issue)



Switzerland?

- PSE: high, reference point, greening the policy
- AP 2014-17: a strong greening component, improvement of competitiveness was originally not a main point
- In the message to Parliament this point has been strengthened
 - Positioning of products in the markets, innovations
 - Cost reduction via investment policy and benchmark projects
- WTO in standby
- FHAL with EU: reshaped approach

An adequate set up from the economics point of view

Role of policy framework (market failure)

- Ecology: Resource use, environmental protection, agriculture related ecosystem services, commons
- Markets: Asymmetries (info, market power), IP, Price volatility and unpredictable pressure (DC) and transitions; food security policy (availability, sustainability, access, use, food safety, stability)
- Rural and space planning (sparing space)
- Research, Education, Extension, Information management

- And to avoid policy failures

Conclusion

- The “classical” trade economics approach has to be enlarged by the ecological dimension
- Trade related policies have to include this dimension
- But not a hidden protectionism behind the environmental issues. Efficiency is important
- Local markets have potential (no contradiction)
- GI: Switzerland has “protected” products under the umbrella of IP